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SUBJECT: SCENESETTER FOR CODEL PETERSON VISIT TO MADRID

REF: SECSTATE 053737

¶1. (SBU) Summary: Embassy Madrid warmly welcomes your visit. The Government of Spain (GOS) shares your interest in the development of renewable energy, including biofuels. However, what once promised to be a booming industry with plans for construction of 30 biodiesel and 20 ethanol plants, has stalled as a result of delays in passing a mandatory blending requirement and very high raw material prices. Nearly all of the existing biofuel production capacity in Spain sits idle, including the Abengoa cellulosic ethanol plant in Salamanca that you will be visiting on Sunday, June 11. High-level GOS officials have raised concern over the distortion in biodiesel production caused by the previously existing "splash and dash" regime in the U.S. and should react favorably to recent developments to remove this provision. Within the Doha round context, Spain is aligned with France in supporting protection for non-wine agricultural products. Spain is the only large producer of agriculture biotechnology in Europe, and continues to be its strongest supporter within the EU. End Summary.

Biofuels in Spain

¶2. (U) The socialist government reelected in March has remained consistently committed to the development of Spain's renewable energy industry, including biofuels. In December 2006, the Spanish Ministry of Industry announced plans for a new regulation making a two percent biofuels blend mandatory in calendar year 2007. Although approved by the Spanish Congress in June 2007, the new regulation establishing mandatory blending does not take effect until 2009. The new law includes a voluntary 1.9 percent blending in 2008, a mandatory 3.4 percent blending in 2009, and a mandatory 5.83 percent blending in 2010.

¶3. (U) The uncertainty and delay in implementing the new mandatory blending requirement caused significant delays in development of the once-promising biofuel industry in Spain. Combined with very high raw material prices, the absence of a mandatory mixing requirement has caused all of the major biodiesel and ethanol plants in Spain to halt production. Although some small plants currently produce biodiesel with used oil, and a small amount of ethanol is being distilled from surplus wine, most of Spain's currently available production capacity sits idle. Additionally, the significant investment plans that various companies announced in recent past, which could have led to as many as thirty biodiesel and twenty ethanol plants in production by the end of calendar year 2008, have either been postponed or terminated all together.

¶4. (SBU) The issue of "splash and dash" has been raised by high-level GOS officials with the USG. (Note: The EU alleged

that U.S. biodiesel exports to Europe benefited from domestic U.S. subsidies under the splash and dash scheme. End Note)
The GOS' former Secretary of State for Tourism and Commerce, Pedro Mejia, shared his concern over this issue with Senator Grassley during CODEL Martinez's visit to Madrid in January 2008, and with several U.S. Senators during a meeting with a Spanish renewable energy delegation on Capitol Hill in February 2008. The recent decision by the House Ways and Means Committee to end the provision will be received favorably by the GOS. Embassy recommends that the CODEL be prepared to discuss the issue, particularly the positive aspects of this recent development.

Doha Round:

Domestic Farm Supports and Agricultural Biotechnology

15. (SBU) The Spanish Ministry of Environment, Rural Development and Marine Affairs and the Spanish farmers they represent stand clearly with France regarding the European Commission's (EC) negotiating mandate in the Doha Round of negotiations. They believe that the EC has already exceeded the negotiating mandate agreed by all 27 Member States (MS). They are particularly sensitive to further tariff reductions that might be part of a comprehensive negotiating outcome, believing that with the current Common Agricultural Policy (CAP) reform, they have become too exposed to competition from imported commodities. Many Spanish producers use geographical indications to differentiate regional production. They align themselves with the French on the demand that protection for non-wine agricultural products be part of the Doha Round outcome.

16. (SBU) Regarding CAP reform, the Spanish have fought hard to protect domestic producers to the extent possible within the CAP-reform parameters decided upon in Brussels. In all cases, they have successfully insisted that the EC continue to provide the same level of (or greater) monetary support, even when they agreed to change the financial delivery mechanism. At home, the Spanish negotiators have been very vocal about their negotiating success, which may be one of the contributing factors in the President effectively promoting the former Minister of Agriculture to run a 'super ministry' composed of the two former Ministries of Agriculture and Environment. The new ministry is called the Ministry of Environment, Rural Development and Marine Affairs.

17. (SBU) Spain continues to be our strongest ally within the EU on agriculture biotechnology and the only substantive producer within the European Union. Spanish corn farmers have exercised their option to grow biotechnology corn during the last 12 years, and during the last two campaigns have doubled planted acreage each year. In 2007, Spanish corn farmers planted about 75,000 hectares. Spain is a feed-deficit market, so it has a clear need to produce and source as much raw material as possible.

Political Update

18. (SBU) The general elections in March 2008 were a hard fought affair that saw President Zapatero's Socialist party (PSOE) defeat Mariano Rajoy's Popular Party (PP). The PSOE, which needed 176 seats in the 350-seat Congress to gain an absolute majority, won 169 seats or about 44 percent of the vote. The Popular Party won about 40 percent of the vote, which translated into 155 seats. Smaller regional parties from Catalonia, Galicia, and the Basque Region all received enough votes to gain congressional representation but lost seats to the two main political parties, the PSOE and PP. Voter turnout nationwide was over 75 percent. The slowing Spanish economy, the terrorist threat from both the Basque terrorist group ETA and Islamic extremist groups, regional autonomy, and immigration were all major topics during the

election. Foreign affairs did not play a major role in the campaign, but the PSOE reminded voters that it removed Spain's troops from an unpopular war in Iraq.

¶9. (SBU) Since winning reelection, Zapatero has named a new government, created new ministries and combined others. Zapatero's new cabinet notably has more female ministers (9) than male (8), including Spain's first female Minister of Defense, Carme Chacon. Two new ministries have been added: The Ministry of Equality and the Ministry of Science and Technology. The Ministry of Agriculture has taken on the additional responsibility of Marine Affairs and has been combined with the Ministry of the Environment. The GOS' First Vice President for the Presidency, Second Vice President for Economy and Finance, and Ministers of Foreign Affairs and Interior remain the same.

Economic Update

¶10. (U) Spain has had one of Europe's fastest-growing economies over the last decade. It has the world's eighth largest economy and is the world's second largest tourism destination and eighth auto manufacturer. Its GDP per capita is expected to pass Italy's in 2010. The next year or two will be more difficult. A housing boom that spurred growth for several years ended abruptly in 2007. Construction has slowed dramatically, and unemployment has risen to almost 10 percent. Inflation is higher than the EU average, which hurts competitiveness.

¶11. (U) U.S. investment has long been important to the Spanish economy (more so than bilateral trade), and U.S. firms employ over 220,000 Spaniards. The growth of Spanish multinationals and the strong Euro have led to a surge of Spanish investment in the U.S. in the last few years. In 2007, Spain was the fourth largest foreign investor in the U.S., with particular emphasis in banking, toll road construction, and renewable energy. Spanish firms now own wind farms in at least 14 U.S. states, as well as solar power and biofuels plants.

Diplomatic Cooperation and Security

¶12. (SBU) U.S.-Spain relations were seriously damaged by President Zapatero's decision soon after his election in 2004 to abruptly withdraw Spanish forces from Iraq. However, over the last several years, both countries have made a concerted and successful effort to rebuild the relationship based on strong mutual interests in counter-terrorism, fighting narcotics trafficking and organized crime, and rapidly expanding economic ties. The real bilateral story is found in novel initiatives such as the HSPD-6 agreement we signed last September to facilitate the sharing of information between our national counter-terrorism authorities. Following the March 11, 2004 train bombings, Spain remains a target of Islamic extremists. Al-Qaeda leaders often call for the recapture of the medieval "Al Andalus," and the recent uncovering of a cell allegedly sympathetic to Al-Qaeda and operating out of Barcelona has shown the Spanish that this threat is not an idle one.

¶13. (SBU) Spain is no stranger to terrorism, having fought the domestic Basque terrorist group ETA for almost 40 years. Spanish political leaders are currently showing a united face, as - for the first time in several years, representatives of all political parties in the Spanish Congress issued a joint statement on March 15 - announcing that all would work together to defeat ETA. Interior Minister Rubalcaba said in late March that "we are entering a long cycle of violence" with ETA and, according to Spanish media, the Spanish National Intelligence Center (CNI) has informed the government that ETA has no plans to negotiate for at least the next 18 months. The Basque terrorist group has been active in recent months, detonating explosives on

several occasions, including one that resulted in the death of a Spanish Civil Guard Officer on May 14. ETA also assassinated a former PSOE city councilman on March 7 (two days before national elections), and two Spanish Civil Guard officers in France in December 2007. Spanish security forces are concerned that ETA has established new bomb manufacturing centers and techniques that will enable the organization to launch more attacks.

¶14. (SBU) Narcotics trafficking is another area of common concern and excellent cooperation. Spanish authorities acknowledge that Andean cocaine is a serious problem here, and Colombian trafficking organizations are active in Spain. Money laundering is another serious issue. We are eager to find ways to increase bilateral cooperation and to encourage Spain to engage more aggressively with law enforcement authorities in key Latin American countries. Spain has recently taken steps in this direction. Within the last two months, the Director General of Spain's Police and Civil Guard traveled to Colombia to sign a cooperation agreement to fight drug trafficking and its related crimes through increased personnel and information exchange.

¶15. (SBU) Spain, second only to the U.S. in terms of investment, is actively engaged in Latin America. In addition to cultural and historical ties, Spain shares our interest in a strong democratic and free market institutions in the region. Regarding Cuba, we share with Spain the objective of a peaceful transition to democracy but differ markedly on how to achieve this end. Spain's socialist government has opted for engagement, claiming it can encourage regime elements who want change. We take every opportunity to remind the Spanish that the Cuban regime is only interested in survival and that the Cuban dissidents need and deserve the active and visible support of democracies everywhere.

¶16. (SBU) Spanish military cooperation matters. The bases of Rota and Moron are strategic hubs, midway between the U.S. and Afghanistan and Iraq. U.S. planes and ships account for around 5,000 flights and 250 port calls a year in Spain. The Spanish military is pro-U.S. and pro-NATO. We need to keep this relationship strong. Spain has nearly 800 personnel in Afghanistan and runs a provincial reconstruction team in Badghis province. Spain has contributed some 150 million Euros in Afghan reconstruction funds. Planning is underway to allow the Spanish to train and equip an Afghan Army company, which we hope will be a prelude to the training and equipment of a full battalion. Spain has nearly 1,100 troops with UNIFIL in Lebanon and about 700 in Kosovo. On Iraq, Spain has contributed \$22 million to the Basrah Children's Hospital and a further \$28 million in development funding for Iraq. Spain's total commitment to the Iraq Compact was USD 225 million. The Spanish Foreign Ministry says that Spain has disbursed all of its pledge except for its concessional loans, which are pending completion of project proposals. It also has provided through UNHCR over 800,000 euros for refugee and displaced persons relief in Jordan and Syria. Spain is an active participant in EU-Iraq negotiations on an economic cooperation agreement that would provide additional funding for training and development activities.

Security Assessment

¶17. (U) In general, Spain is safe. However, Madrid, Barcelona and other large cities in Spain attract a large number of criminals and pickpockets and frequent incidents of crime of opportunity against the unwary do occur. It is best to carry only essential items including a photocopy of your passport's photo page. Visitors can protect themselves against crime by being street-smart, alert and aware of their surroundings. Travelers are encouraged to review the most recent Worldwide Caution issued by the Department of State. As the Department of State continues to develop information on any potential security threats to Americans overseas, it shares credible threat information through its Consular Information Program documents, available on the Internet at

<http://travel.state.gov>. Additional information regarding safety and security in Spain is available on the U.S. Department of State's website (www.embusa.es).
Aguirre